

Consolidated Financial Statements and
Report of Independent Certified Public Accountants

Wounded Warrior Project, Inc. and Subsidiary

For the Year Ended September 30, 2016

Wounded Warrior Project, Inc. and Subsidiary

Table of Contents

Report of Independent Certified Public Accountants	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Directors of
Wounded Warrior Project, Inc. and Subsidiary

Report on the financial statements

We have audited the accompanying consolidated financial statements of **Wounded Warrior Project, Inc. and Subsidiary** (collectively, the “Organization”), which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wounded Warrior Project, Inc. and Subsidiary as of September 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Iselin, New Jersey
January 27, 2017

Wounded Warrior Project, Inc. and Subsidiary
 Consolidated Statement of Financial Position
 As of September 30, 2016

Assets:	
Cash and cash equivalents	\$ 54,505,337
Investments	338,296,606
Contributions receivable, net	8,353,323
Inventory	3,622,537
Prepaid expenses	8,490,976
Property and equipment, net	11,911,779
Other assets	4,027,049
Beneficial interest in trust	716,977
Total assets	<u><u>\$ 429,924,584</u></u>
 Liabilities and net assets:	
Accounts payable and accrued liabilities	<u>\$ 22,354,120</u>
Total liabilities	<u>22,354,120</u>
 Net assets:	
Unrestricted:	
Undesignated	143,088,254
Wounded Warrior Project Long Term Support Trust (Note 1)	93,363,083
Designated for Strategic Reserves (Note 2)	165,690,809
Total unrestricted	<u>402,142,146</u>
Temporarily restricted	4,428,318
Permanently restricted	1,000,000
Total net assets	<u>407,570,464</u>
Total liabilities and net assets	<u><u>\$ 429,924,584</u></u>

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions	\$ 310,295,165	\$ 705,784	\$ -	\$ 311,000,949
In-kind contributions	65,458,381	2,700,000	-	68,158,381
Interest and dividend income, net of investment fees	6,982,845	22,706	-	7,005,551
Net realized and unrealized gain on investments	12,954,102	77,668	-	13,031,770
Miscellaneous income, net	2,200,045	-	-	2,200,045
Net assets released from restrictions	49,973	(49,973)	-	-
Total revenue and support	<u>397,940,511</u>	<u>3,456,185</u>	<u>-</u>	<u>401,396,696</u>
Program expenses:	<u>275,750,082</u>	<u>-</u>	<u>-</u>	<u>275,750,082</u>
Total program expenses	<u>275,750,082</u>	<u>-</u>	<u>-</u>	<u>275,750,082</u>
Supporting expenses:				
Management and general	19,998,695	-	-	19,998,695
Fund-raising	69,427,657	-	-	69,427,657
Total supporting expenses	<u>89,426,352</u>	<u>-</u>	<u>-</u>	<u>89,426,352</u>
Total expenses	<u>365,176,434</u>	<u>-</u>	<u>-</u>	<u>365,176,434</u>
Change in net assets	32,764,077	3,456,185	-	36,220,262
Net assets, beginning of year	<u>369,378,069</u>	<u>972,133</u>	<u>1,000,000</u>	<u>371,350,202</u>
Net assets, end of year	<u>\$ 402,142,146</u>	<u>\$ 4,428,318</u>	<u>\$ 1,000,000</u>	<u>\$ 407,570,464</u>

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2016

	Alumni	Benefits Service	International Support	WWP Packs	Peer Support	Physical Health & Wellness	Soldier Ride	Combat Stress Recovery	Independence Program	TRACK
Outside services	\$ 11,896,058	\$ 929,654	\$ 214,109	\$ 174,646	\$ 451,636	\$ 3,671,247	\$ 1,358,182	\$ 10,272,327	\$ 16,352,666	\$ 1,505,253
Public service announcements - donated	15,728,488	7,992,617	558,143	558,144	4,465,149	5,023,293	5,860,508	5,302,364	3,907,005	1,116,287
Compensation (salaries, taxes and benefits)	10,661,922	5,800,581	1,136,190	673,387	1,185,081	3,269,283	2,604,702	6,348,993	2,313,477	911,143
Postage and shipping	3,624,781	1,797,647	135,266	129,635	988,246	1,125,618	1,312,824	1,217,787	876,869	251,871
Grants	6,293,593	1,595,985	2,528,964	49,560	521,478	466,038	520,377	22,129,937	471,918	714,806
Warrior program events	13,926,866	175,084	329,622	211,621	537,621	3,428,388	4,746,271	5,076,163	980,831	108,449
Direct response mail	2,035,828	1,034,529	72,244	72,244	577,951	650,194	758,559	686,315	505,706	144,487
Direct response TV and online	2,870,299	1,458,576	101,856	101,856	814,847	916,703	1,069,487	967,631	712,991	203,712
Rent	1,389,276	646,195	172,955	78,502	168,565	337,602	335,275	719,849	291,797	547,759
Professional fees	-	-	-	-	-	-	-	-	-	-
Processing fees	-	-	-	-	-	-	-	-	-	-
Depreciation	910,276	424,068	102,952	61,538	119,094	227,119	398,212	471,163	197,847	67,312
Advertising and promotion - donated	1,291,227	656,152	45,821	45,821	366,566	412,386	481,187	435,297	320,745	91,641
Travel	1,065,912	492,604	90,185	32,583	106,317	325,582	321,341	642,809	210,253	52,734
Miscellaneous	577,637	356,850	68,883	44,713	85,813	180,857	206,104	290,511	129,895	52,471
Advertising and promotion - purchased	785,189	399,003	27,882	27,882	222,915	250,777	292,570	264,711	195,053	55,743
Warrior assistance and support	1,396,066	128,916	53,696	23,952	25,213	28,995	35,093	143,012	38,497	40,973
Meetings	263,170	165,466	32,475	21,940	39,086	72,345	118,213	269,131	57,021	33,952
Telephone and internet	315,384	146,656	44,997	17,434	37,939	76,423	75,893	163,367	65,995	19,558
Education and development	117,050	95,418	14,780	10,734	19,078	57,925	42,300	106,276	28,490	22,138
Office equipment and services	182,610	84,696	22,460	10,165	21,991	44,188	225,881	94,335	38,174	11,388
Office supplies and printing	169,054	56,257	22,730	16,102	22,243	35,165	41,156	69,505	29,849	19,624
Insurance	112,631	51,604	33,993	7,177	14,229	29,475	28,088	59,059	23,879	7,890
Total expenses	\$ 75,613,317	\$ 24,488,558	\$ 5,810,203	\$ 2,369,636	\$ 10,791,058	\$ 20,629,603	\$ 20,832,223	\$ 55,730,542	\$ 27,748,958	\$ 5,979,191

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Functional Expenses (cont'd)
For the Year Ended September 30, 2016

	Transition Training Academy	Warriors to Work	Education Services	WWP Talk	Warriors Speak	Total Program Services	Management and General	Fundraising	Total Support Services	Total All
Outside services	\$ 308,960	\$ 1,034,137	\$ 144,799	\$ 303,149	\$ 147,943	\$ 48,764,766	\$ 1,128,039	\$ 5,995,175	\$ 7,123,214	\$ 55,887,980
Public service announcements - donated	837,215	3,348,862	-	558,144	558,144	55,814,363	-	-	-	55,814,363
Compensation (salaries, taxes and benefits)	2,372,657	3,587,098	692,056	1,517,781	861,261	43,935,612	3,888,396	4,911,565	8,799,961	52,735,573
Postage and shipping	206,559	767,698	7,325	145,803	133,008	12,720,937	214,861	23,313,791	23,528,652	36,249,589
Grants	74,340	347,358	-	49,559	49,560	35,813,473	-	-	-	35,813,473
Warrior program events	94,590	118,107	64,663	68,399	-	29,866,675	-	-	-	29,866,675
Direct response mail	108,365	433,462	-	72,244	72,244	7,224,372	-	16,756,986	16,756,986	23,981,358
Direct response TV and online	152,784	611,135	-	101,856	101,856	10,185,589	-	9,043,292	9,043,292	19,228,881
Rent	252,074	435,760	69,954	272,820	136,107	5,854,490	2,491,021	528,621	3,019,642	8,874,132
Professional fees	-	-	-	-	-	-	7,148,035	-	7,148,035	7,148,035
Processing fees	-	-	-	-	-	-	-	6,593,178	6,593,178	6,593,178
Depreciation	171,378	289,849	55,906	185,720	86,982	3,769,416	1,591,915	337,820	1,929,735	5,699,151
Advertising and promotion - donated	68,731	274,924	-	45,821	45,821	4,582,140	26,287	52,131	78,418	4,660,558
Travel	143,479	165,006	42,605	57,219	211,812	3,960,441	166,297	286,217	452,514	4,412,955
Miscellaneous	115,998	182,444	40,264	341,559	53,687	2,727,686	1,030,985	260,794	1,291,779	4,019,465
Advertising and promotion - purchased	41,812	167,191	19	27,882	42,894	2,801,523	96,391	462,229	558,620	3,360,143
Warrior assistance and support	71,887	321,422	31,967	23,976	100	2,363,765	-	-	-	2,363,765
Meetings	70,549	85,337	28,437	51,008	81,532	1,389,662	354,786	375,556	730,342	2,120,004
Telephone and internet	56,632	98,771	15,494	61,674	30,989	1,227,206	567,139	120,352	687,491	1,914,697
Education and development	101,433	40,354	9,039	22,820	44,508	732,343	633,282	74,537	707,819	1,440,162
Office equipment and services	72,307	57,320	9,045	35,682	17,873	928,115	329,548	69,417	398,965	1,327,080
Office supplies and printing	36,109	41,382	19,934	28,506	16,356	623,972	136,653	204,602	341,255	965,227
Insurance	20,816	35,152	6,492	22,393	10,658	463,536	195,060	41,394	236,454	699,990
Total expenses	\$ 5,378,675	\$ 12,442,769	\$ 1,237,999	\$ 3,994,015	\$ 2,703,335	\$ 275,750,082	\$ 19,998,695	\$ 69,427,657	\$ 89,426,352	\$ 365,176,434

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended September 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ 36,220,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,699,151
Loss on disposal of property and equipment	263,070
Contributed property and equipment	(147,292)
Net realized and unrealized gain on investments	(13,031,770)
Provision for losses on contributions receivable	3,817
Change in operating assets and liabilities:	
Contributions receivable	(4,360,682)
Inventory	(1,048,052)
Prepaid expenses	8,911,703
Other assets	(3,038,031)
Beneficial interest in trust	49,973
Accounts payable and accrued liabilities	(5,685,023)
Net cash provided by operating activities	<u>23,837,126</u>
Cash flows from investing activities:	
Purchases of property and equipment	(1,202,830)
Proceeds from sales of property and equipment	7,300
Purchases of investments	(286,612,256)
Proceeds from sales of investments	243,106,854
Net cash used in investing activities	<u>(44,700,932)</u>
Net decrease in cash	(20,863,806)
Cash and cash equivalents, beginning of year	<u>75,369,143</u>
Cash and cash equivalents, end of year	<u><u>\$ 54,505,337</u></u>

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1 Organization

Wounded Warrior Project, Inc. (“WWP” or “Wounded Warrior Project”), is a not-for-profit 501(c)(3) corporation organized February 23, 2005, for the purpose of serving veterans and service members who incurred a physical or mental injury, illness, or wound, co-incident to their military service on or after September 11, 2001. The mission of WWP is to honor and empower wounded warriors. WWP connects wounded warriors and their families to valuable resources and their peers, serves them through a variety of free programs and services, and empowers them to live life on their terms.

The consolidated financial statements include Wounded Warrior Project, Inc. and Wounded Warrior Project Long Term Support Trust (collectively, the “Organization”). Wounded Warrior Project Long Term Support Trust (the “Trust”) was established as a supporting organization on September 27, 2013 to provide the economic means for supportive services to maintain wounded warriors in settings that are as independent as possible, and to assist with long term care needs in the event of the warrior’s separation from his or her current caregiver. The Trust is consolidated in accordance with authoritative guidance because, among other factors, WWP has the power to remove the Trustee and appoint a successor Trustee, and the Trust is operated, supervised, and controlled by WWP, its supported organization. The Trust is a Type I supporting organization.

As of September 30, 2016, the Trust net assets of \$93,363,083 are separately presented on the accompanying consolidated statement of financial position as part of unrestricted net assets. From inception through September 30, 2016 WWP has transferred \$91,834,100 to the Trust. An additional \$1,019,900 in contributions for the Trust were received by WWP as of September 30, 2016 and will be transferred to the Trust in fiscal year 2017. Funds transferred into the Trust by WWP must be used for the purposes defined by the Trust, and cannot be returned to WWP. The Trust accounts are included in the accompanying consolidated financial statements.

The goal of the Trust is to empower these most severely wounded warriors, who have experienced a moderate to severe brain injury, spinal-cord injury, or other neurological condition, to live as independently as possible, with the highest quality of life and finest, most compassionate care possible. WWP is responsible for identifying the warriors who are members of the charitable class of persons served by the Trust.

The Trust provides funds to ensure services including life-skills training, home care, transportation, and residential options remain available to the severely wounded, who upon the loss of their caregiver, are at risk for institutionalization. The Trust will generally make approved distributions directly to service providers to provide for the needs of warriors. Distributions for the benefit of a specific warrior shall take into account his or her health, his or her financial needs, the requirements for his or her care, the provision of a decent standard of living for the warrior and his or her dependents, the warrior’s ability to live independently and the community-based resources available to support the warrior’s needs, and in general, the requirements to alleviate the suffering that results from the injuries or illness suffered by the warrior as a result of his or her military service. Further, WWP takes into consideration the availability of government benefits and other forms of public funding and resources that may provide for some or all of the needs of the warrior. As of September 30, 2016, there have not been any distributions requested or made from the Trust.

In January 2016, negative media stories regarding the Organization prompted inquiries and requests for documents from Senator Grassley on behalf of the Committee on the Judiciary and from other parties. The Organization responded to these inquiries and requests, and management does not believe they will have a material adverse effect on the organization’s financial position, results of operations or cash flows. There are no new matters to report regarding these inquiries and requests.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

The Organization delivers direct program services in the following areas:

Alumni

The Alumni program provides long-term support and camaraderie for wounded warriors through communication, events and networking. The Alumni program offers a wide range of activities including sporting events, educational sessions, personal and professional development summits and recreational events that provide individuals a chance to engage with other wounded warriors. The Alumni program also identifies, trains, and challenges leaders within the wounded warrior population to support their peers in their continued path toward physical health and well-being.

Benefits Service

To help warriors make the most of their benefits and successfully transition to life after injury, WWP provides the tools they need to become financially secure. Unlike traditional models of veterans' services, WWP identifies the warrior's individual needs, in addition to providing economic empowerment. The Benefits Service team ensures warriors and their families have information and access to government benefits, as well as WWP's full range of programs and the community resources necessary for successful transition to life after injury.

A key part of this program is support and education for warriors, as well as their family members and caregivers. WWP has a team of highly trained personnel that are accredited by the Department of Veteran Affairs to represent warriors and advocate on their behalf. WWP personnel represent warriors in their filing of claims for benefits with the Department of Veteran Affairs and Department of Defense. WWP personnel work closely with each agency so they can walk warriors through every step of the process. When a claim is filed, WWP makes sure it is processed correctly the first time and guides injured service members through this crucial part of their transition.

International Support

Landstuhl Regional Medical Center is one of the first locations warriors are transported to once injured. Most of the time during transport, their belongings are not transported with them. WWP provides comfort items such as jackets, sweatpants, t-shirts, and blankets to warriors before they are flown back to the States. WWP wants to make their stay and travel back to the United States of America as comfortable as possible. For warriors stationed at the warrior transition units in Europe, WWP has multiple programs in place, including benefits counseling, Soldier Ride and Combat Stress Recovery.

WWP Packs

WWP backpacks contain essential care and comfort items including clothing, toiletries, playing cards, and more - all designed to make a warrior's hospital stay more comfortable. Backpacks are provided to wounded service members arriving at military trauma centers across the United States.

Injured warriors overseas who are evacuated from field hospitals to larger military treatment facilities stateside or abroad receive a smaller version of the WWP backpack, known as the Transitional Care Pack, for immediate comfort.

Peer Support

Peer Support is the programmatic embodiment of WWP's logo, fostering relationships that enable one warrior to help another through the recovery process. The WWP peer support program mentors serve as listeners, role models, and motivators who can share their understanding and perspective with fellow warriors. WWP's goal of Peer Support is for the warrior being mentored to eventually mentor a fellow warrior - embodying the Wounded Warrior Project mission and logo.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Physical Health & Wellness

Physical Health & Wellness (“PH&W”) programs are designed to reduce stress, combat depression, and promote an overall healthy and active lifestyle by encouraging participation in fun, educational activities. PH&W has something to offer warriors in every stage of recovery. Four focus areas are Inclusive Sports, Fitness, Nutrition, and Wellness.

Soldier Ride

Soldier Ride® is a unique three to five day cycling opportunity for warriors to use cycling and the bonds of service to overcome physical, mental and emotional wounds. Warriors of all ability levels can cycle on adaptive hand cycles, trikes and bicycles. In addition to the physical benefit, Soldier Ride helps raise public awareness of the challenges warriors face today through events held throughout the ride. Warriors will have the opportunity to take part in annual events, which will challenge them physically and mentally, from the south lawn of the White House to local communities across the nation.

Combat Stress Recovery

The Combat Stress Recovery Program (“CSRP”) addresses the mental health and cognitive needs of returning service members and those that have already made the transition back to civilian life. The CSRP responds to the mental health needs of our warriors by addressing several key issues linked to combat stress, including the stigma attached to mental health, access to care, and interpersonal relationship challenges.

WWP challenges warriors to think about goal-setting and understanding their “new normal.” Many warriors begin their journey with Project Odyssey®, an outdoor, rehabilitative retreat that promotes peer connection, challenging outdoor experiences, and healing with other combat veterans. WWP provides licensed mental health counselors at all Project Odyssey events.

The CSRP also provides continued care services to improve warrior resiliency and psychological well-being. This is accomplished through the establishment of goals and the identification and use of community based resources.

In addition, in order to enhance access and provide Post Traumatic Stress Disorder (“PTSD”) and Traumatic Brain Injury (“TBI”) treatment through an integrated care model, WWP has established the Warrior Care Network™. Warrior Care Network consists of four national leading academic medical centers (“AMCs”) that will connect warriors and their families with world-class, evidence-based mental health care. These AMCs will provide warriors with multi-week, intensive outpatient programs and individualized care.

WWP has committed to provide institutional and financial support to the AMCs. WWP distributed \$20,700,000 in grants to the AMCs during the year ended September 30, 2016, which is included in the accompanying consolidated statement of functional expenses as a CSRP grant expense. WWP has entered into agreements to continue to grant funds to each AMC, subject to specific provisions and fundraising conditions that each AMC is required to meet in order to access their portion of the funds. WWP has a conditional financial commitment of \$20,700,000 for the year ended September 30, 2017.

Independence Program

The Independence Program helps warriors live life to the fullest, on their own terms. It is designed for warriors who rely on their families and/or caregivers because of moderate to severe brain injury, spinal-cord injury, or other neurological conditions. In addition, the warrior’s cognitive or physical challenges limit their opportunities to access resources and activities in their own community.

The Independence Program is a team effort, bringing together the warrior and his or her full support team while creating an individualized plan for each warrior - focusing on goals that provide a future with purpose at no cost to the warrior and his or her support team. It’s designed as a comprehensive long-term partnership intended to adapt to the warriors’ ever-changing needs.

The Independence Program provides support and training for involvement in meaningful activities, including social and recreational, wellness, volunteer work, education, and other life skills.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

TRACK

TRACK is the first education center in the nation designed specifically for wounded warriors. TRACK is focused on providing college and employment access to wounded warriors through its intensive and holistic training experience for the mind, body, and spirit. The 12-month program provides wounded warriors a jump-start on meeting their educational goals, while also supporting goals around personal health and wellness, mental health, and career development.

Transition Training Academy

Transition Training Academy (“TTA”) introduces warriors, family members and caregivers to the information technology field as a possible career choice. TTA classes are taught in a modified classroom setting with flexible class schedules to accommodate participants’ medical and duty requirements.

Warriors to Work

Warriors to Work® is one of the cornerstones of WWP’s efforts to achieve its strategic goal of economically empowering wounded warriors. This program assists wounded warriors with their transition to the civilian workforce. It offers a complete package of career guidance and support services including resume assistance, interviewing skills, networking, job training, and job placement. The program staff provides continued individual counseling and personal support to all program participants as they strive to build a career in the civilian workforce.

Education Services

The Education Services program prepares warriors for success by helping them achieve their educational goals. Education Services guides warriors through their options with secondary education, provides customized plans for success and educates warriors about campus resources available to them. Wounded warriors have different needs than typical students because of the institutional and social obstacles they might face due to combat stress, accessibility to learning models, and social instability.

WWP Talk

WWP Talk provides telephonic, emotional support to WWP alumni and helps bridge the gap that may prevent participation in other programs. This helpline was created for wounded service members living with PTSD, depression, combat stress, or other mental health conditions. Together, the warrior and WWP Talk teammates develop coping strategies to help the warrior overcome challenges and learn to thrive again despite invisible wounds.

Warriors Speak

The Warriors Speak® program is a group of wounded warriors and caregivers who have been selected to share their personal, inspirational stories of courage and integrity with the public. The speakers also describe how WWP has aided them in the recovery process and helped them transition back to civilian life. Participants are trained to become effective spokespersons through the Warriors Speak course, which includes tools to help them organize thoughts, compose presentations, and communicate successfully. The training provides important life skills that help warriors succeed socially, at their workplace, and as community leaders.

2 Summary of Significant Accounting Policies

The following summary of significant accounting policies of the Organization is presented to assist in understanding the accompanying consolidated financial statements. The consolidated financial statements and accompanying notes are representations of the Organization’s management. These accounting policies conform to accounting principles generally accepted in the United States of America (“US GAAP”) and have been consistently applied in the presentation of the accompanying consolidated financial statements.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Basis of Presentation

The accompanying consolidated financial statements reflect the accounts of the Organization. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with US GAAP.

In accordance with authoritative guidance, the Organization reports information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Net assets representing resources generated from operations that are not subject to donor-imposed stipulations. The Organization has designated strategic operating reserve investment funds (“Strategic Reserves”) set aside by action of the Board of Directors. The purpose of the Strategic Reserves is to ensure the stability of the mission, programs, employment and ongoing operations of the Organization. The Strategic Reserves are intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Strategic Reserves may also be used for one-time, non-recurring expenses that will build long-term capacity, such as staff development or investment in technology and infrastructure.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. The temporarily restricted net asset balance at September 30, 2016 includes cumulative earnings in accordance with the Virginia Uniform Prudent Management of Institutional Funds Act (VUPMIFA) awaiting appropriation for expenditure, and the time restricted beneficial interest in trust.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

The Organization places its cash and cash equivalents with FDIC insured financial institutions. At times, the account balances may exceed the FDIC insured limits. The Organization does not believe it is exposed to any significant credit risk with respect to such cash accounts.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Investments

Investments are carried at fair value (see Note 4 for fair value measurements). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are reflected in the consolidated statement of activities. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified and prudent asset allocation to achieve its long-term return objectives while maintaining portfolio stability and preserving capital.

Endowments

The Organization has adopted investment and spending policies, approved by its Board of Directors, for endowment assets that attempt to provide a supplementary source of funding for operations, infrastructure redevelopment, and other capital projects for the benefit of the Organization, while seeking to maintain the purchasing power of these endowment assets over the long-term. WWP presently has one permanently restricted endowment, which allows WWP to spend investment proceeds on the Independence Program (see description in Note 1).

Beneficial Interest in Trust

As of December 6, 2012, the Organization became the beneficiary of an irrevocable charitable lead annuity trust held by a bank trustee. The beneficial interest in the trust is reported at its fair value, which is based on the present value of the scheduled annuity payments to be received.

Contributions Receivable

Contributions receivable are all due within one year. Management evaluates total contributions receivable based upon a review of account balances, including the age of the balance and historical collection experience with donors, and includes in the allowance for doubtful accounts an estimate of losses to be sustained. Uncollectible amounts are charged against the allowance account when management determines the possibility of collection to be remote, and any amounts subsequently collected are recorded as income in the period received. The allowance for doubtful accounts totaled \$313,227 as of September 30, 2016.

Inventory

Inventory is stated at the lower of average cost or market. Inventory consists of undistributed backpacks, transition care packs, WWP apparel and promotional items. Management evaluated its inventory as of September 30, 2016 and determined no allowance was necessary.

Prepaid Expenses

Prepaid expenses primarily consists of postage purchased in advance of, and to be used for future direct mail campaigns as well as advance payments for program events and other services.

Property and Equipment

Property and equipment with values of \$10,000 or more and a useful life longer than three years are recorded at cost, or, if donated, at their estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred. When items of property and equipment are sold or otherwise disposed of, the assets and related accumulated depreciation accounts are eliminated, and any gain or loss is included in the consolidated statement of activities.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Construction in progress is recorded at cost and is transferred to property and equipment accounts when useable or placed in service. Leasehold improvements are recorded at the inception of the lease and are depreciated over the remaining life of the lease, or the useful life of the improvement, whichever is shorter; for improvements made during the lease term, the depreciation period is the shorter of the useful life or the remaining lease term (including any renewal periods that are deemed to be reasonably assured), generally three to five years. Fixed asset lives for consolidated financial statement reporting of depreciation are:

Furniture and fixtures	5 years
Computers and program equipment	3 years
Vehicles	3 years
Website and software	3 years

Contributions

Contributions, both cash and in-kind, are recognized when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are satisfied in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the donor-imposed restrictions. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets in the accompanying consolidated statement of activities.

Contributions other than cash, are recorded at their estimated fair value at the date received. Contributions of property and equipment without donor-imposed stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be satisfied at the time of acquisition of such long-lived assets.

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. No amounts have been reflected in the accompanying consolidated financial statements for these contributed services since the contribution of these services did not meet the criteria for recognition.

Expenses

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation.

Advertising and Promotion

Advertising and promotion is expensed as incurred. For the year ended September 30, 2016, advertising and promotion expense consisted of \$55,814,363 of donated in-kind public service announcements, \$4,660,558 of donated in-kind advertising for public awareness campaigns, and \$3,360,143 disbursed for other advertising and promotion costs.

Functional Expense Allocation

The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited based on how employees spent their time and the purpose of the costs incurred.

Income Taxes

The Organization has received tax determination letters from the Internal Revenue Service and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, only unrelated business income is subject to income tax. The Organization is not classified as a private foundation.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

The Organization follows authoritative guidance which requires the Organization to evaluate its tax positions for any uncertainties based on the technical merits of the position taken. The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be upheld upon examination by taxing authorities. As of September 30, 2016, the Organization does not believe it has any uncertain tax positions. The Organization has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Organization has filed Internal Revenue Service Form 990 tax returns as required and all other applicable returns in those jurisdictions where required.

The Organization believes that it is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to fiscal 2013. However, the Organization is still open to examination by taxing authorities from fiscal year 2013 forward. No tax expense, interest or penalties have been recorded in the accompanying consolidated financial statements related to any uncertain tax positions.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for WWP for fiscal year 2021. Early adoption is permitted. WWP is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for WWP for fiscal year 2019. Early adoption is permitted. WWP is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

3 Investments

Investments are managed under a diversified investment strategy. Investments, measured at fair value, are comprised of the following at September 30, 2016:

Exchange traded funds	\$ 28,616,524
Government fixed income	74,321,911
Corporate fixed income	83,780,132
Mutual funds	115,657,826
Common stocks	29,597,952
Limited partnerships	6,322,261
<u>Total Investments</u>	<u>\$ 338,296,606</u>

The following schedule summarizes investment return for the year ended September 30, 2016:

Interest and dividend income	\$ 8,167,672
Realized and unrealized gain	13,031,770
Investment fees	(1,162,121)
<u>Total investment return</u>	<u>\$ 20,037,321</u>

4 Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Authoritative guidance provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. These investments include positions that are not traded in active markets and/or are subject to transfer restrictions. Valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization also measures certain investments using net asset value (“NAV”) which is exempted from categorization within the fair value hierarchy and related disclosures.

The asset’s fair value measurement level within the fair value hierarchy is based on the highest priority of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes “observable” requires significant judgment by the Organization.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

There have been no changes in the valuation methodologies used by the Organization at September 30, 2016 as compared to prior years. The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Exchange Traded Funds: These securities track an index, a commodity or a basket of assets like an index fund, and trade like equities on an active exchange. They experience price changes throughout the day as they are bought and sold.

Mutual Funds: Valued at quoted prices of the units reported on the active market on which the individual investments trade.

Common Stocks: Valued at the closing price reported on the active market on which the individual investments trade.

Corporate and Government Fixed Income Securities: Valued using matrix pricing, valued at the closing price reported on the active market on which the individual investments trade. Matrix pricing is a mathematical technique used without relying exclusively on quoted prices for the specific investments, but rather on the investments' relationship to other benchmark quoted investments.

Limited Partnerships: Investments in limited partnership interests invest in diversified private investment funds, which in turn hold investments and equity in a variety of industries. The NAV of these partnerships are determined by the general partner and/or the investment manager using the fair value of the underlying assets, obtained from quoted market prices for investments in marketable securities.

As of September 30, 2016, the Organization has no unfunded commitments with respect to its government fixed income securities funds or partnership interests and there are no restrictions on redemptions of investments in these funds. The Organization believes that it can redeem its investment in these funds at the reported value.

The Organization believes that the reported fair value of its investments in government fixed income, corporate fixed income, and limited partnership interests is a reasonable estimate of their fair value. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets reported at fair value on a recurring basis as of September 30, 2016:

	Level 1	Level 2	Level 3	NAV	Total
Exchange traded funds	\$ 28,616,524	\$ -	\$ -	\$ -	\$ 28,616,524
Government fixed income	-	74,321,911	-	-	74,321,911
Corporate fixed income	83,699,397	80,735	-	-	83,780,132
Mutual funds	115,657,826	-	-	-	115,657,826
Common stocks	29,597,952	-	-	-	29,597,952
Limited partnerships	-	-	-	6,322,261	6,322,261
Total investments at fair value	\$ 257,571,699	\$ 74,402,646	\$ -	\$ 6,322,261	\$ 338,296,606

There were no significant transfers of assets between Level 1 and Level 2 during the year ended September 30, 2016.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements. The Organization, in collaboration with its investment advisors, monitors the Organization's investments and the risks associated on a regular basis. The Organization believes this process minimizes risk.

As discussed in Note 2, the Organization is the beneficiary of an irrevocable charitable lead annuity trust. The investment securities that support the trust are similarly exposed to the risks identified above.

5 Endowment Net Assets

As of September 30, 2016, the Organization had one donor restricted endowment, which is classified as permanently restricted. As required by US GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

The Organization's Board of Directors interpreted VUPMIFA as requiring the preservation of the original value of any donor-restricted gift, as of the gift date, absent explicit donor stipulations to the contrary. As a result, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for expenditure prescribed by VUPMIFA.

In accordance with VUPMIFA, the Organization considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Organization and its endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected income and appreciation of investments;
6. Other resources of the Organization; and
7. The investment policies of the Organization.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or VUPMIFA requires the Organization to retain as a fund of perpetual duration. As of September 30, 2016, there were no such deficiencies of this nature.

Under the terms of the governing documents related to this endowment, investment income and gains and losses are to be added to the balance of the endowment. Annually, up to five percent of the fair value of the endowment may be appropriated for expenditure. However, per donor stipulation, appropriations may not reduce the fair value of the assets to an amount less than the original endowment of \$1,000,000.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended September 30, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 30, 2015	\$ 205,183	\$ 1,000,000	\$ 1,205,183
Endowment investment return:			
Interest and dividend income	22,706	-	22,706
Realized and unrealized gains	77,668	-	77,668
Total endowment investment return	100,374	-	100,374
Appropriation of endowment assets for expenditures	-	-	-
Endowment net assets, September 30, 2016	\$ 305,557	\$ 1,000,000	\$ 1,305,557

6 Property and Equipment

Property and equipment consists of the following at September 30, 2016:

Furniture and fixtures	\$ 17,910,998
Leasehold improvements	7,808,675
Construction in process	285,273
Vehicles	1,398,671
Website and software	1,234,889
Computer and program equipment	1,080,269
Gross property and equipment	29,718,775
Less: Accumulated depreciation	(17,806,996)
Property and Equipment, Net	\$ 11,911,779

7 Leases

The Organization leases office space, storage space and office equipment primarily under non-cancelable operating leases. The leases provide for increases in scheduled rent, operating expenses, and real estate taxes attributable to the leased property. The leases expire in various years through 2025. At September 30, 2016, WWP recognized a deferred rent liability of \$1,727,833 included within accounts payable and accrued liabilities in the accompanying statement of financial position and represents the cumulative difference between the rent expense recognized on the straight-line basis over the term of the lease and the actual rent paid. Total rent expense for the year ended September 30, 2016 totaled \$8,874,132.

Future minimum lease payments for operating leases with an initial or remaining lease term of twelve months or more at September 30, 2016 are as follows:

2017	\$ 5,478,396
2018	5,744,909
2019	5,185,494
2020	3,252,679
2021	1,724,896
Thereafter	3,785,584
Total minimum lease payments	\$ 25,171,958

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

8 In-Kind Contributions

During the year ended September 30, 2016, the Organization received the following non-cash contributions:

Public service announcements	\$ 55,814,363
Advertising and promotion	4,660,558
Professional services	4,559,657
Event tickets, property and equipment	617,141
Other	2,506,662
Total in-kind contributions	\$ 68,158,381

The Organization's consolidated financial statements include the following in-kind contributions:

Public Service Announcements and Advertising

Public service announcements help the American public understand the needs of post-9/11 veterans, while also making warriors and their families aware of the programs and services available to them. The Organization produces and distributes public service television, radio, internet, and newspaper announcements that focus attention on the programs and services the Organization provides for wounded warriors. These public service announcements are distributed to television stations, radio stations, internet, and newspapers nationwide that then deliver the announcements to assist the Organization in its mission, free of charge. Advertising includes billboard, magazine, and truck advertisements. The Organization receives printed advertising which appears on billboards, magazines, and U-Haul trucks that serve as platforms to market and brand the mission of the Organization.

The Organization has contracted with independent outside agencies to track the date and time that each public service announcement displays and to estimate the fair value of the announcement and printed advertisement based on the date, time, and market. For certain advertising, the Organization obtains the estimated fair value of the advertisement based on the length of time, date, and market.

Professional Services

Donated professional services are valued at the fair value of the services received when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by a donation.

Event Tickets, Property and Equipment

Event tickets, property and equipment are used to defray costs of operations, or as part of fundraising events, or are given to alumni. The Organization values these items at fair value on the date received.

Other

The Organization receives other in-kind contributions, including discounts, rental of trucks, gala auction items, etc. The other in-kind contributions are valued based on fair value on the date received by the Organization.

9 Allocation of Joint Costs

US GAAP requires the cost of joint activities that meet the criteria for purpose, audience and content to be allocated between fundraising expenses and program or management and general expenses. Accordingly, WWP allocates joint activities that benefit program services and include a fundraising appeal. The programmatic component of these activities includes the education and recruitment of wounded service members that have not yet engaged with WWP, a call to action to enlist the public's aid in identifying wounded service members that would benefit from WWP's programs and services, and an opportunity to thank WWP's alumni for their sacrifices in serving our country.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

These joint activities include direct response television and direct mail campaigns. The cost of conducting these activities included a total of \$50,388,889 of joint costs for the year ended September 30, 2016. Of these costs, \$29,566,395 was allocated to program expenses and \$20,822,494 was allocated to fundraising expenses.

10 Retirement Plan

WWP has a 401(k) plan in which WWP may match up to four percent of a participant's eligible compensation. Eligible employees are entitled to become participants of the plan as soon as administratively feasible. For the year ended September 30, 2016, the Organization incurred \$1,128,578 in matching contributions, which is included in compensation expense in the accompanying consolidated statement of functional expenses.

11 Contingencies

The Organization may be subject to legal actions or claims in the ordinary course of its business. Management is not aware of any current legal matters pending which would have a material adverse impact on the consolidated financial statements of the Organization.

During fiscal year 2016, the Organization became aware that in some circumstances, it did not obtain sufficiently detailed documentation under Treasury Regulation Section 1.274-5(c). Treasury Regulation Section 1.62—2(c) states that a reimbursement arrangement that, among other things, meets certain substantiation rules under Section 274 regulations will be treated as paid under an accountable plan. Treasury Regulation Section 1.274-5(c) further provides that ordinarily, documentary evidence will be considered adequate to support an expenditure if it includes sufficient information to establish the amount, date, place, and the essential character of the expenditure. Upon discovery of these circumstances, the Organization promptly contacted the IRS to resolve the matter and is currently collecting documentation for this purpose. It is management's opinion that any potential amounts due upon the resolution of this matter will not have a material adverse effect on the accompanying consolidated financial statements. The Organization has also amended its Travel and Expense Policies and Procedures to require submission of documentary evidence that meets the substantiation requirements of Treasury Regulation Section 1.274-5(c).

12 Subsequent Events

The Organization has evaluated events through January 27, 2017, which was the date the consolidated financial statements were available to be issued. The Organization is not aware of any material events that require recognition or disclosure in the accompanying consolidated financial statements.